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E.O. 12958: DECL: 11/30/2016

TAGS: ENRG EPET ETRD EUN FI RS

SUBJECT: ENERGY FROM THE EAST: FINNISH RELIANCE ON RUSSIAN NATURAL GAS

Classified By: Econ Officer Glenn Lewis for reasons 1.4 (b) and (d).

¶1. (C) Summary: Gasum, Finland's sole supplier of natural gas, has managed to settle into a peaceful coexistence with its notorious Russian partner Gazprom. Although totally dependent on Gazprom for 100 percent of its supply, Gasum ensures stability through long-term contracts with Gazprom which has provided uninterrupted supply with next to no political interference for decades. Nonetheless, Finland continues to explore all options, including the proposed Balticconnector natural gas pipeline, which would provide additional energy security and capacity to Finland. Natural gas represents 11 percent of Finland's overall energy use.
End summary.

Gasum's Connection to Russian Gazprom

¶2. (C) Gasum is the sole natural gas provider in Finland and 100 percent of its natural gas supply is imported from Russia. Russian energy giant Gazprom owns 25 percent of Gasum, the Finnish state owns 24 percent, Finnish energy company Fortum (also partially government-owned) owns 31 percent and E.ON Ruhrgas owns 20 percent. Gasum CEO Antero Jannes told econoffs in a November 15 meeting that Gazprom has been a reliable supplier of natural gas to Finland for over thirty years and that the overall relationship has been quite positive. He acknowledged Russian and Gazprom political influence in neighboring countries, but said Finland had been largely immune to such interference. To ensure a stable supply of natural gas through 2025, Gasum recently negotiated a long-term contract with Gazprom that allows for minor price adjustments every three years.

¶3. (C) Jannes said Gazprom has largely been a &hands off& shareholder and that Gasum's business decisions have not been influenced by the overall Russian or Finnish political climate. Lobbying is almost unknown in Finland, so Gasum does not discuss Russia policy with the Finnish government. Also, unlike in some Baltic countries, Gazprom has not placed &advisors& in Gasum's corporate structure, nor does the contract with Gazprom permit them to do so. Jannes attributed this to Gazprom's and Russia's desire to have a successful business relationship with Gasum. He acknowledged that Finland's preference to work out differences quietly had most likely also contributed to smooth relations. &We are used to living with the Russians,& Jannes said, smiling.

Increasing Energy Security through the Balticconnector

¶4. (SBU) The proposed Balticconnector pipeline would increase predictability and security of supply by connecting Finland

to large natural gas reserves in Latvia and future liquefied natural gas (LNG) terminals in the Baltic countries. The natural gas crisis in Ukraine last winter caused Finnish consumer confidence in the Russian supply of natural gas to drop, creating the right climate for Gasum to push for the EU to conduct a feasibility study for a 100 million euro pipeline Gasum is considering. The pipeline would link Finland to the natural gas network in the Baltic countries thereby increasing the natural gas capacity in Helsinki and other southern regions in Finland. Natural gas consumption in Finland is quite low (accounting for just 11 percent of overall energy use as compared to over 20 percent in most EU countries), but it is a calculated part of a diverse energy supply strategy that utilizes natural gas, coal, nuclear, oil, biofuels, peat and other alternative energy sources.

Finland,s All Business Approach

¶5. (C) Comment: Gasum,s relationship with Gazprom is yet another example of the pragmatic, &all business8 Finnish approach to energy discussions with Russia. This non-combative style has enabled the Finns to ensure a stable natural gas supply from its eastern neighbor. We should expect the Finns to continue to play this non-confrontational role with Russia in bilateral and EU-led energy discussions. At the same time, Gasum will hedge its bets by looking into options such as the Balticconnector.

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